DIRECT TESTIMONY OF
ANTHONY D. BRISENO
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2020-125-E
IN RE: APPLICATION OF DOMINION ENERGY SOUTH CAROLINA, INCORPORATED FOR ADJUSTMENT OF RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Anthony D. Briseno. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Audit Manager for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received my Bachelor of Science Degree in Business Administration with a major in Accounting from Coastal Carolina University in August 2014. I received my Master of Accountancy Degree from Coastal Carolina University in August 2015. I also received a Graduate Certificate for completion of the Fraud Examination Program at Coastal Carolina University in August 2015. I began my employment as an Auditor with ORS in October 2016 and was promoted to Senior Auditor in August of 2019. In August of 2020 I was promoted to my current position as Audit Manager. I have participated in various cases involving the regulation of electric, gas, water and wastewater utilities.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION")?

A. Yes, I have previously testified before the Commission.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

> [T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to set forth ORS's findings and recommendations for the following adjustments resulting from ORS's examination of the application of Dominion Energy South Carolina, Incorporated ("DESC" or "Company"), in Docket No. 2020-125-E:

- Adjustment #11 – Annualize Other Post-Employment Benefits ("OPEB")
- Adjustment #19 – Storm Remediation Cost Deferral
- Adjustment #20 – Storm Damage Remediation Rider Reinstatement
- Adjustment #21 – Tree Trimming and Vegetation Management Accrual
- Adjustment #22 – Turbine Major Maintenance Accrual
- Adjustment #23 – V.C. Summer ("VCS") Outage Accrual
- Adjustment #27 – Amortize Capacity Purchases
- Adjustment #29 – KapStone Gain
- Adjustment #30 – Critical Infrastructure Protection Costs Deferral
- Adjustment #31 – Fukushima Nuclear Regulatory Commission Requirements Deferral
- Adjustment #32 – VCS Cyber Security Deferral
- Adjustment #35 – Unrecovered Plant Amortization
- Adjustment #36 – Advanced Metering Infrastructure ("AMI")

I also address ORS's findings related to the Company's treatment of Canadys Units 2 and 3.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE EXPLAIN ORS'S REVIEW OF THE DEFERRALS SOUGHT BY DESC IN THIS CASE.

A. ORS's review of deferrals is broken down into three parts 1) review the underlying expenditures included in deferrals, 2) review the overall methodology used in calculating the deferral balance, and 3) review the amortization period for deferral balances.

Regarding the underlying expenditures included in the deferrals, for certain deferrals, the Company used both actual and estimated expenditures in some of their deferral adjustments; ORS recommends that the estimates, used in the Company's deferral adjustments (as originally proposed) be excluded from the calculations of the deferral balances because they are not known and measurable. The required adjustments to exclude these estimates are addressed as part of the applicable adjustment testimony and described in each specific adjustment later in my direct testimony. Through discovery, the Company updated estimates to utilize actual expenditures for the AMI adjustment, but DESC did not update any other deferral adjustments that otherwise utilize estimates in the adjustments DESC presented to the Commission for recovery.

Regarding amortization of deferral balances, ORS recommends different amortization periods for certain deferrals. Adjustments related to amortization periods are addressed as part of the applicable adjustment testimony later in my direct testimony.

ORS does not object to the overall methodology used by DESC in the calculation of its deferrals. The methodology used is as follows:

- Expenditures for capital investments are included in rate base and there is no carrying cost calculated on these amounts.
- Where applicable, depreciation, property taxes, taxes and operations and maintenance ("O&M") expenses are deferred, carrying costs are calculated on these amounts using the company's cost of debt (tax related deferrals used 3-year treasury plus 65 basis points), and the balance is included in rate base through the adjustment.
- Some deferrals consist of O&M expenditures, and the balance is included in rate base through the adjustment and there is no carrying costs calculated on these amounts.
- Deferral balances are included in rate base net of one-year of amortization and taxes.

ORS does not object to the methodology used by the Company, however, the methodology used by DESC does vary from the approach the Commission approved in the Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") rate cases in Docket Nos. 2018-318-E, and 2018-319-E. In summary, the Commission approved the following ("Deferral methodology"):

- Expenditures for capital investments were included in rate base but there was also carrying costs calculated (using a weighted average cost of capital) on the capital assets; only the carrying cost balance was included in rate base.
- Depreciation, property taxes, and O&M expenses were deferred, but there were no carrying costs calculated on these amounts.
- Depreciation, property taxes, and O&M expenses were not allowed to be included in rate base.
- Deferral balances were shown net of one-year amortization and taxes.

To highlight the difference compared to what was originally sought by DEC and DEP in the above referenced rate cases and this case ORS offers that DEC and DEP originally sought the following from this Commission:

- Carrying costs calculated using the weighted average cost of capital for the return on the capital investments;
- Recovery of deferred depreciation, property taxes, and O&M expenses;
- Carrying costs calculated using the weighted average cost of capital for the return on all of the above on a monthly basis;
- The deferral balance (consisting of all the above), minus one year of amortization and taxes to be included within rate base.

Regarding carrying cost calculations, there is a hierarchy of what is generally the most expensive to least expensive way to calculate the carrying costs which are as follows:

- Weighted average cost of capital (most expensive)
- Cost of debt
- Treasury notes (least expensive)

In DESC's deferrals, it varied from the approach taken by DEC and DEP because it only requested carrying costs at its Cost of Debt or the Treasury notes, and in some instances, it requested no carrying costs. To compare and contrast the different approaches taken by

DESC as opposed to DEC and DEP, ORS requested that the Company calculate its deferrals (for comparison purposes only) using the Deferral methodology approved by the Commission through ORS's Continuing Request for Production of Books, Records and Other Information ("ORS Request") 9-1. The Company provided the calculations on the following specific deferrals: Deferred Transmission, Cyber Security, Critical Infrastructure and AMI. The Company's response noted this about its calculation: "[t]he assumptions include current capital structure, cost of debt used, and level of return to investors used" and the Company acknowledged that there could be other assumptions as well such as "actuals, hypotheticals, limited to what is established in this rate case." Additionally, using the Deferral methodology several other deferral adjustments for DESC would not receive rate base treatment. Deferrals of O&M, depreciation expense, property taxes and carrying costs on those amounts would not be included in rate base using the Deferral methodology. These high-level assumptions notwithstanding, the preliminary result of using the Deferral methodology is an increase in DESC's revenue requirement of nearly $7 million over what DESC requested in its Application.

This analysis was included in my testimony for comparison and informational purposes and is not for the purpose of any ORS recommendations or adjustments. Additionally, the Company's response to this request included the following qualification:

> The Company has populated the information requested by ORS in the attached "Deferral Template for DESC" Excel workbooks, which was designed and developed exclusively by the ORS. In providing the requested information, DESC does not, in any way, endorse, approve, accept or otherwise indicate any agreement with or support for the development and design of the Excel workbook, the calculations contained therein, any conclusions that ORS may draw from the workbook, or any uses that ORS may make of the workbook and the information contained therein.

Q. RECOGNIZING THE DIFFERENCES BETWEEN THE DEFERRALS SOUGHT BY DESC AND THE DEFERRAL METHODOLOGY ADOPTED IN THE DEC AND DEP DOCKETS, CAN ORS CALCULATE THE REVENUE IMPACT TO DESC'S REVENUE REQUIREMENT IF THE COMMISSION WERE TO REQUIRE DESC TO APPLY THE SAME METHODOLOGY TO ITS DEFERRALS?

A. No. The Commission would need to direct DESC to calculate the revenue impact to the revenue requirement after it has made a determination on the pertinent factors, such as the types of cost sought for recovery, carrying costs sought for recovery, etc. The reference above to the increase of $7 million reflects a high-level estimate for comparison purposes.

Q. PLEASE EXPLAIN ORS'S RECOMMENDED ADJUSTMENTS.

A. Explanations of the accounting and pro forma adjustments are presented on a retail basis for both ORS and the Company:

<u>Adjustment #11 Annualize Other Post-Employment Benefits ("OPEB")</u>

The Company originally proposed to adjust other O&M expenses by $258,000, income taxes by ($64,000), deferred debits and credits by ($194,000), and working capital by $32,000. The Company provided an update to this adjustment to exclude a portion attributable to the sale of the Scana Energy Marketing, Inc. ("SEMI") division. The update was provided by the Company in its response to ORS Request 8-6. Through that response, the Company proposes to adjust other O&M expenses by $134,000, income taxes by ($34,000), deferred debits and credits by ($100,000), and working capital by $17,000. This pro forma adjustment annualizes the retail electric O&M portion of the Company's expenses for OPEB to match the amounts required to be accrued for these future expenses under the

Company's actuarial study. ORS verified the Company's calculations and accepts the Company's updated adjustment.

Adjustment #19 – Storm Remediation Cost Deferral

The Company proposes to adjust other O&M expenses by $8,780,000, income taxes by ($2,191,000), deferred debits and credits by $26,357,000, and working capital by $1,097,000. ORS proposes to adjust depreciation and amortization expenses by $4,390,000, income taxes by ($1,096,000), and deferred debits and credits by $29,652,000.

This pro forma adjustment amortizes the retail balance of $43,899,686 for the storm deferral as of May 2020. The Company did not update the storm deferral for actual figures through September 2020. Pursuant to Commission Order No. 2012-951, the Company is seeking after-the-fact recovery of the deferred storm expenses that have accrued since the depletion of its storm reserve account in 2016. This deferral has no carrying costs included within its balance. The Company proposes this balance to be amortized over five (5) years. ORS recommends an amortization period of ten (10) years based upon the review of the Energy Operations Division and direct testimony of ORS witness Bickley. Witness Bickley discusses the rationale behind ORS's proposed adjustment to the amortization period in greater detail. ORS tested various transactions within the deferral and found no material exceptions. The deferral balance, net of one year of amortization and taxes, is included within rate base through this adjustment.

ORS recommends that the amortization of regulatory assets and liabilities be classified as depreciation and amortization and not O&M as proposed by the Company for several deferrals. Since working capital is calculated using O&M expenses as a base, including depreciation and amortization expenses in O&M will inappropriately overstate working capital. It should be noted that depreciation and amortization expenses are synonymous in the sense they are calculated to recover or expense a balance over a period of time, rather than all at once.

Based upon Deloitte & Touche's Public Utilities Manual, and the National Association of Regulatory Utility Commissioners ("NARUC") Rate Case and Audit Manual, taxes and depreciation are generally excluded from the calculation of working capital. Deloitte & Touche's Public Utilities Manual defines working capital as:

> the average amount of capital, over and above the investment in plant and other separately identified rate base components, provided by investors to bridge the gap between the time expenditures are made to provide service and the time collections are received for that service. Measurement is often based on the use of a standardized factor (typically 45 days of operating expenses less depreciation, taxes, purchased gas, or purchased and interchanged power).

NARUC's Rate Case and Audit Manual details the formula method (used in this rate case) used to calculate working capital as:

> The formula method is also known as the 45-day rule, and was established by the FERC (formerly, the Federal Power Commission) in a 1939 decision. At that time, the working capital was computed as 45/365 of operating costs, but excluded taxes (which did not require initial outlays of capital) and depreciation (which is a non-cash expense). In a 1949 case, the FERC modified the formula so that not only were taxes and depreciation excluded from the formula, but purchased power was also excluded (based on the contention that purchased power is paid for after revenues are received.).

<u>Adjustment #20 – Storm Damage Remediation Rider Reinstatement</u>

The Company proposes to adjust other O&M expenses by $9,840,000, income taxes by ($2,455,000), deferred debits and credits by ($7,385,000), and working capital by $1,230,000. ORS proposes to adjust other O&M expenses by $5,000,000, income taxes by ($1,248,000), deferred debits credits by ($3,752,000), and working capital by $625,000.

ORS's pro forma adjustment incorporates the reinstatement of the Storm Damage Remediation Rider based upon the review of the Energy Operations Division and the direct testimony of ORS witness Bickley. ORS witness Bickley also addresses various policy recommendations related to the reinstatement of the Storm Damage Remediation Rider. The annual accrual amount net of taxes is included in rate base as an offset through this adjustment.

Adjustment #21 – Tree Trimming and Vegetation Management Accrual

The Company proposes to adjust other O&M expenses by $3,519,000, income taxes by ($878,000), and working capital by $440,000. ORS proposes to adjust other O&M expenses by $2,748,000, income taxes by ($685,000), and working capital by $344,000.

This pro forma adjustment removes the test year expenses for tree trimming and vegetation management and incorporates the average annual cost the Company will have going forward based upon current contracts and invoices and the number of miles historically treated. The Company updated this adjustment in response to ORS Request 8-6. In its update, the Company proposes to adjust other O&M expenses by $3,786,000, income taxes by ($945,000), and working capital by $473,000.

Through the update, the Company calculated an annual required amount of $27,679,292 for their tree trimming and vegetation management accrual. However, the method used by the Company in calculating their adjustment, allows it $28,717,612. The Company removed $1,038,320 for hourly work from their test year amount of $24,931,187 resulting in an adjusted test year amount of $23,892,866. This number was then compared to the $27,679,292 the Company determined was their annual requirement to arrive at their adjustment of $3,786,425.

In response to ORS Request 4-5, the Company described the hourly work ($1,038,320) as removal of dead trees, fallen trees, broken branches, and clearing of vines observed growing into the lines as unpredictable. In response to ORS Request 11-9, the Company provided ORS with numerous documents that contained vegetation management guidelines that the Company follows. Those documents specify that the Company's tree trimming and vegetation management plan already includes the removal of dead trees, fallen trees, and broken branches.

The Company through their calculation of this adjustment allows them to retain the $1,038,320 and increase the test year amount by $3,786,425 which ultimately allows them $28,717,612 on an annual basis for tree trimming and vegetation management should the Company's updated adjustment be accepted by the Commission. The adjustment amount proposed by ORS allows the Company to recover the annual accrual amount of $27,679,292 as requested by the Company. Since this is an accrual, the accrual amount could be adjusted up or down in the Company's next rate case should, the Company collect too much or too little money. This adjustment was also reviewed by the ORS Energy Operations Division and additional details of this adjustment can be found in the direct testimony of ORS witness Bickley.

<u>Adjustment #22 – Turbine Major Maintenance Accrual</u>

The Company proposes to adjust other O&M expenses by $10,295,000, income taxes by ($2,569,000), and working capital by $1,287,000. This pro forma adjustment updates the existing annual turbine major maintenance accrual, approved by the Commission in Commission Order Nos. 2005-2, 2010-471, and 2017-447, to reflect the projected costs going forward for the next eight (8) years. This adjustment was also reviewed by the ORS

Energy Operations Division and additional details of this adjustment can be found in the direct testimony of ORS witness Bickley. ORS verified the Company's calculations and accepts this adjustment.

<u>Adjustment #23 – VCS Outage Accrual</u>

The Company proposes to adjust other O&M expenses by $69,000, income taxes by ($17,000), and working capital by $9,000. ORS proposes to adjust other O&M expenses by ($400,000), income taxes by $100,000, and working capital by ($50,000).

This pro forma adjustment updates the existing annual VCS outage accrual, approved by the Commission in Commission Order No. 2012-951, to reflect the projected costs going forward for the next five (5) outages. ORS's adjustment excludes $5 million of contingencies proposed by the Company. This adjustment was also reviewed by the ORS Energy Operations Division and additional details of this adjustment and the recommendation to remove the contingencies can be found in the direct testimony of ORS witness Bickley.

<u>Adjustment #27 – Amortize Capacity Purchases</u>

The Company proposes to adjust other O&M expenses by ($10,070,000), income taxes by $2,512,000, and deferred debits and credits by $1,036,000. ORS proposes to adjust other O&M expenses by ($10,760,000), depreciation and amortization by $690,000, income taxes by $2,512,000 and deferred debits and credits by $1,036,000.

This pro forma adjustment removes the amortization expense from the test year for two fully amortized and previously deferred purchased power capacity balances, approved by the Commission in Commission Order Nos. 2010-471, and 2013-649, and incorporates the retail deferred purchased power capacity balance of $2,070,000 over three (3) years. ORS accepts the Company's proposed amortization period. ORS verified the current deferred balance to invoices. This deferral did not include carrying costs within its balance. The balance, net of one year of amortization and taxes, is included in rate base. Similar to other deferral adjustments, the amortization of the deferral is included in depreciation and amortization.

Adjustment #29 – KapStone Gain

The Company proposes to adjust depreciation & amortization expense by ($473,000), income taxes by $118,000, and deferred debits and credits by ($355,000).

This pro forma adjustment provides the benefits of the retail balance of $945,000 from the sale of the fully depreciated electric power generator to KapStone Charleston Kraft, LLC in December 2018 to DESC customers. The Company proposes to amortize this gain over a two (2) year period. The balance, net of one year of amortization and taxes, is included within rate base as an offset through this adjustment. ORS accepts the Company's proposed amortization period and adjustment.

Adjustment #30 – Critical Infrastructure Protection Costs Deferral

The Company proposes to adjust other O&M expenses by $4,234,000, depreciation and amortization expense by $526,000, income taxes by ($1,188,000), deferred debits and credits by $14,290,000, and working capital by $529,000. ORS proposes to adjust depreciation and amortization expense by $2,272,000, income taxes by ($567,000), and deferred debits and credits by $15,347,000.

ORS's pro forma adjustment amortizes the actual retail balance of $22,715,985 for the Critical Infrastructure Deferral as of May 2020. The Company's proposed adjustment includes estimates through February 2021. The Company did not update the deferral for actual figures through September 2020. This deferral was approved by the Commission in

Commission Order No. 2014-946, which capped the deferred expenses and depreciation expense at $20 million plus carrying costs (at the Company's cost of debt) on the deferred balances. This deferral consists of various O&M expenses, depreciation expense, and carrying costs on deferred balances incurred by the Company to comply with critical infrastructure protection standards from the Federal Energy Regulatory Commission ("FERC"). ORS tested various transactions within the deferral and found no material exceptions. The Company proposes this deferral balance to be amortized over five (5) years. ORS recommends an amortization period of ten (10) years. The balance, net of one year of amortization and taxes, is included within rate base through this adjustment.

ORS's adjustment excludes the Company's proposed estimates and the amortization of the deferral in depreciation and amortization expense rather than other O&M expenses as proposed by the Company. As a result, the deferral amortization is excluded from the calculation of working capital. See the reasoning provided in Adjustment #19 – Storm Damage Remediation Deferral for the exclusion of the amortization of the deferral in calculating working capital. This adjustment was also reviewed by the ORS Energy Operations Department and additional details of this adjustment and the recommendation for the amortization period of ten (10) years can be found in the direct testimony of ORS witness Bickley.

<u>Adjustment #31 – Fukushima Nuclear Regulatory Commission Requirements Deferral</u>

The Company proposes to adjust other O&M expenses by $436,000, income taxes by ($109,000), deferred debits and credits by $2,947,000, and working capital by $55,000. ORS proposes to adjust depreciation and amortization expense by $436,000, income taxes by ($109,000), and deferred debits and credits by $2,947,000.

This pro forma adjustment amortizes the retail balance of $4,363,650 for the Fukushima Deferral as of June 2020. This deferral was approved by the Commission in Commission Order Nos. 2012-780 and 2015-298, which capped this deferral balance at $4,500,000, which is the total cost of the deferral before retail allocations are applied.

The Company proposes this retail balance to be amortized over ten (10) years. ORS accepts the Company's proposed amortization period. This deferral consists of various O&M expenses incurred by the Company to comply with requirements from the Nuclear Regulatory Commission ("NRC") as a result of the incident that occurred at the Fukushima nuclear power station. ORS tested various transactions within the deferral and found no material exceptions. This deferral has no carrying costs included within its balance. The balance, net of one year of amortization and taxes, is included within rate base through this adjustment.

ORS's adjustment includes the amortization of the deferral in depreciation and amortization expense rather than other O&M expenses as proposed by the Company. As a result, the deferral amortization is excluded from the calculation of working capital. See the reasoning provided in Adjustment #19 – Storm Damage Remediation Deferral for the exclusion of the amortization of the deferral in calculating working capital.

<u>Adjustment #32 – VCS Cyber Security Deferral</u>

The Company proposes to adjust other O&M expenses by $1,116,000, depreciation and amortization expense by $556,000, income taxes by ($418,000), deferred debits and credits by $5,020,000, and working capital by $140,000. ORS proposes to adjust depreciation and amortization expense by $823,000, income taxes by ($205,000), and deferred debits and credits by $5,558,000.

ORS's pro forma adjustment amortizes the actual retail balance of $8,229,057 for the VCS Cyber Security Deferral as of May 2020. The Company's proposed adjustment includes estimates through February 2021. The Company did not update the deferral for actual figures through September 2020. This deferral was approved by the Commission in Commission Order No. 2015-790. The Company proposes this balance to be amortized over five (5) years. ORS recommends an amortization period of ten (10) years. This deferral consists of various O&M expenses, depreciation expense, and carrying costs (at the Company's cost of debt) incurred by the Company to comply with cyber security regulations from the NRC. ORS tested various transactions within the deferral and found no material findings. The balance, net of one year of amortization and taxes, is included within rate base through this adjustment.

ORS's adjustment includes excluding the Company's proposed estimates and the amortization of the deferral in depreciation and amortization expense rather than other O&M expenses as proposed by the Company. As a result, the deferral amortization is excluded from the calculation of working capital. See the reasoning provided in Adjustment #19 – Storm Damage Remediation Deferral for the exclusion of the amortization of the deferral in calculating working capital.

This adjustment was also reviewed by the ORS Energy Operations Department and additional details of this adjustment and the recommendation for the amortization period of ten (10) years can be found in the direct testimony of ORS witness Bickley.

<u>Adjustment #35 – Unrecovered Plant Amortization</u>

The Company proposes to adjust depreciation and amortization expense by $385,000, income taxes by ($96,000), and deferred debits and credits by $1,156,000.

This pro forma adjustment amortizes the retail balance of $1,942,224 for Urquhart Unit 3 and McMeekin as of May 2020. The Company proposes this balance to be amortized over five (5) years. The balance consists of inventory write offs and equipment retirement. ORS tested various transactions within the deferral and found no material findings. The balance, net of one year of amortization and net of taxes is included within rate base through this adjustment. ORS accepts the Company's proposed amortization period and adjustment.

<u>Adjustment #36 – Advanced Metering Infrastructure ("AMI")</u>

The Company proposes to adjust depreciation and amortization expense by $2,334,000, taxes other than income by $592,000, income taxes by ($730,000), plant in service by $18,727,000, accumulated depreciation and amortization by $2,155,000, and deferred debits and credits by $537,000. ORS proposes to adjust depreciation and amortization expense by $2,661,000, taxes other than income by $305,000, income taxes by ($740,000), and deferred debits and credits by $447,000.

This deferral was approved by the Commission in Commission Order No. 2019-622. The Company provided an update to this adjustment to include actual spending through September 30, 2020, while also correcting certain depreciation rate percentages it had applied within the adjustment. The update was provided by the Company in its response to ORS Request 8-6. Through that response, the Company proposes to adjust depreciation and amortization expense by $2,711,000, taxes other than income by $305,000, income taxes by ($753,000), plant in service by $0, accumulated depreciation and amortization by $0, and deferred debits and credits by $409,000. As part of the update, the Company included the plant in service and accumulated depreciation associated with AMI within their updated pro forma adjustment #40 – Projected Capital Spend. ORS's pro forma adjustment amortizes the actual retail balance of $681,253 for the AMI deferral as of September 2020. ORS's adjustment also incorporates the depreciation expense based on the depreciation rates recommended by ORS witness Garrett and property taxes associated with the AMI assets.

The Company proposes this deferral balance to be amortized over five (5) years. ORS recommends an amortization period of eight (8) years. This amortization period was calculated based upon a composite depreciation rate applicable to plant accounts 370.4 (meters), 303 (software), and 391.2 (hardware) using the depreciation rates recommended by ORS witness Garrett. This deferral balance consists of depreciation expense, property taxes and carrying costs (at the Company's cost of debt) on the deferred balances. The balance, net of one year of amortization and taxes, is included within rate base through this adjustment.

Canadys Units 2 and 3

Pursuant to Commission Order No. 2013-649, the carrying value of the Company's investment in the Canadys Units 2 and 3 retired units, and the costs incurred related to the retirement of those units have been placed into a regulatory asset. This asset is being amortized at the level of approximately $12,271,000 per year based on the depreciation expense level that was recorded prior to their retirement.

ORS has reviewed the unrecovered balances of these units and the costs associated with their removal from service. ORS accepts the accounting treatment implemented by the Company pursuant to Commission Order No. 2013-649. ORS accepts the Company's treatment of the unrecovered investment as a component of its rate base. The balance is included in the line "Plant Retirements" in the Deferred Debits/Credits Exhibit DFS-6. The remaining unrecovered balance of Canadys unit 1 is also included in the "Plant Retirements" line item.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.